No. 209

Office Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1968

MARCAN PRODUCTS CORPORATION, MARSHALL CONTROL PRODUCTS CORP., HUGH A. MILLS, RONALD R. MARSHALL, and DAVID E. GOLDING,
Petitioners,

v.

THE A. H. EMERY COMPANY,
Respondent.

PETITIONERS' APPENDIX

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Judgment of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the eighteenth day of January, one thousand nine hundred and sixty-eight.

Present:

Hon. HENRY J. FRIENDLY,
Hon. IRVING R. KAUFMAN,
Hon. ROBERT P. ANDERSON,
Circuit Judges.

THE A. H. EMERY COMPANY,
Plaintiff-Appellee,

v.

MARCAN PRODUCTS CORPORATION, MARSHALL CONTROL PRODUCTS CORP., HUGH A. MILLS, RONALD R. MARSHALL, and DAVID E. GOLDING,
Defendants-Appellants,

BARBARA A. MARSHALL, REUBEN GRODSKY, RICHARD BERMAN, DAVID E. GOLDING & ASSOCIATES, INC.,
Defendants.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is affirmed with costs to the appellee.

A. DAVID FUSARO
Clerk

Opinion of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 157—September Term, 1967.

(Argued October 27, 1967 Decided January 18, 1968.)

Docket No. 31684

[SAME TITLE]

Before:

FRIENDLY, KAUFMAN and ANDERSON,

Circuit Judges.

Appeal by the defendants from a judgment of the United States District Court for the Southern District of New York, Edward C. McLean, *Judge,* which held the defendants liable for the misappropriation and use of the plaintiff's trade secrets, in an action brought for patent infringement and unfair competition. Affirmed.

ANDERSON, *Circuit Judge*:

The complaint in this action charged the defendants with patent infringement and unfair competition. Federal jurisdiction was based on 28 U. S. C. §1388(a) and (b). During pre-trial discovery it became apparent that the patent asserted in the suit was invalid but the defendants wanted the patent issue to remain in the case in order that judgment might be rendered on their counterclaim for invalidity. At the trial the plaintiff offered no evidence of infringement and at the end of its case the patent infringement claim was dismissed. The trial, which lasted some seven days, was thus directed almost exclusively to

the plaintiff's claim of unfair competition, a charge which arose out of the alleged misappropriation and use by the defendants of certain trade secrets of the plaintiff. The trial court in deciding for the plaintiff found no merit in the defense that the misappropriated secrets had not in fact been used by the defendants. After the opinion of the court was filed, the case was reopened on the defendants' motion for reconsideration in order that testimony might be heard in support of their claim that the plaintiff had been guilty of "unclean hands" in alleging patent infringement when it knew or should have known that the patent was invalid, and that this misconduct was a bar to the relief granted on the trade secrets issue. After hearing testimony in connection with this claim, the court again ruled against the defendants, and judgment was entered in favor of the plaintiff. From this judgment the defendants have appealed. We affirm.

The appellants claim that certain of the trial court's findings in regard to the trade secrets charge were "clearly erroneous" and that the court abused its discretion in not sustaining the defense of "unclean hands." Judge McLean's opinions set out carefully and in detail the facts on which his conclusions were based. In the light of the evidence and the inferences reasonably to be drawn therefrom we are satisfied that there was no clear error.

For many years the plaintiff-appellee, the A. H. Emery Company (Emery), has been engaged in the manufacture and sale of a variety of precision weighing devices at its plant in New Canaan, Connecticut. The hydraulic load cell, the device involved in the present litigation, was designed to weigh a large load without sacrificing the accuracy achieved in substantially smaller weighing devices. In simplest terms it consists of a cylindrical chamber, containing hydraulic fluid, a load head or platform upon which the thing to be weighed is positioned, and a piston which

transmits the weight of the object from the load head to the fluid in the chamber where a measuring instrument records the increase in pressure thereby created. The high degree of accuracy achieved in the plaintiff's cell is in part attributable to the presence of a steel ball between the load head and the piston, which operates to reduce the adverse effects of torque and other disturbing forces which are produced when the object to be weighed is not exactly centered on the load head. The ball may be either "low" or "high" in the load cell; in the former construction it is contained in a recess in the piston below the load head, whereas in the latter it is housed in a recess in the load head itself and rolls on the uppermost surface of the piston, rather than on the bottom of the recess in the interior of the piston. The plaintiff makes load cells of both the "high" and the "low" ball variety.

From 1943 until his departure from Emery in 1960, the defendant, Hugh A. Mills, was employed by the plaintiff, first as a research and development engineer and later as a sales representative. While he was so employed Mills assembled at his home a complete low ball load cell, Model EC 30. For the most part this was accomplished by using discarded parts which he obtained at the plaintiff's plant. In March of 1960 Mills was dismissed from the plaintiff's employ. Shortly thereafter, along with defendants David E. Golding and Ronald R. Marshall and two others, he helped to found the corporate defendants, Marcan Products Corporation and Marshall Control Products Corp. (Marcan and Marshall Control), to engage in the manufacture and sale of hydraulic load cells. Originally it was planned that Golding would copy the low ball cell which Mills had assembled and that the defendant companies would produce and sell the resultant "Marcan M-25" cell in competition with the plaintiff's EC 30. Initial progress made in this direction was interrupted in November, 1960, however, when a patent on a low ball cell was issued to

Malcolm C. Tate, its inventor, then an officer and principal stockholder of the plaintiff, and assigned to Emery. Thereafter Mills and Golding consulted a patent attorney and were advised that the low ball cell which they contemplated making would infringe the Tate patent, but that a high ball cell would not. Accordingly they decided to make the high ball type and the first Marcan M-25 high ball cells were manufactured and delivered to their customers by January 31, 1961. Other than the location of the ball, these cells were essentially the same as the plaintiff's EC 30.

Robert Northrop was a draftsman employed by Emery from 1949 until September of 1960 when he left the plaintiff's employ. For the most part, his work had consisted of making drawings of parts of Emery cells, particularly of the EC 30 cell, the plaintiff's principal product, and he was therefore thoroughly familiar with the dimension and tolerance data used in their construction. In December of 1960 Northrop produced, at Mills' request, a complete set of parts drawings of the Emery EC 30 cell, showing dimensions and tolerances, which he sold to Mills for $150. An accurate load cell could not have been produced by the defendants without the tolerance information contained in the Northrop parts drawings and, although some of the more obvious features of the cell might have been measured and copied from the model Mills had assembled, it was these drawings which enabled the defendants to manufacture a cell to compete with those made by the plaintiff.

As stated above it had become apparent at pre-trial that the patent, which the plaintiff asserted, had become invalid because over a year before the patent application had been filed, the plaintiff had made to two customers several sales of its low ball cell device. See 35 U. S. C. §102(b). The plaintiff, therefore, presented no evidence of infringement at the trial and the trial court entered judgment for the defendants on their counterclaim.

Although at the trial the plaintiff claimed that a variety of trade secrets had been misappropriated and used by the defendants, the court held only that the information contained in its parts drawings, which had been reproduced from memory by Northrop for the use of the defendants, constituted protectable trade secrets. It said, "* * * the detailed data contained in the parts drawings was intended by plaintiff to be confidential, for use by plaintiff's employees in the course of their employment, and that the employees, specifically Mills and Northrop, so understood." The court correctly ruled that, through the sale of its product in the public market, the plaintiff had released any claim to trade secrets in readily discernible physical features of the cell or in its measurable dimensions.[1] The tolerance data, on the other hand, could not be obtained through observation or analysis of the cell itself, and sales of the product did not constitute a release of plaintiff's claim to secrecy in that regard. Accordingly it enjoined any further use or disclosure of such information by the defendants, as well as the sale of products produced with the aid of such data.

Appellants contend that the plaintiff failed to prove there was a trade secret and, if there ever was one, the appellants showed conclusively that it was released when the plaintiff circulated parts drawings to certain of its customers and to various members of the trade. They point to the testimony of the defendant Mills to the effect that these drawings were freely shown to prospective customers and to others on demand. This testimony, however, was contradicted by that of Tate who could recall only "a few rare instances" where parts drawings might have been shown or sent to customers but in those instances the parts drawings

1. See *Specimer* v. *Reynolds Metals Co.*, 177 F. Supp. 291, 296 (S. D. N. Y. 1959); *Van Products Co.* v. *General Welding & Fabricating Co.*, 419 Pa. 248, 213 A. 2d 769, 778-779 (1965); *Schavoir* v. *American Re-Bonded Leather Co.*, 104 Conn. 472, 476, 133 Atl. 582, 583 (1926).

revealed only the external portions and "whatever we sent out did not show the internal construction of the cell, the internal workings of the cell." The trial judge was clearly justified in believing Tate, who, he found, was "an honest man" rather than Mills whose testimony he discredited. *Graver Tank & Mfg. Co., Inc.* v. *Linde Air Products Co.*, 336 U. S. 271, 275 (1949). Even though parts drawings may on occasion have been shown to a limited number of outsiders for a particular purpose, this did not in itself necessarily destroy the secrecy which protected them before they were so disclosed. In any context "secrecy" is a relative term and, as used in the law of trade secrets, it is not an absolute but an equitable concept. *L. M. Rabinowitz & Co.* v. *Dasher*, 82 N. Y. S. 2d 431, 437 (1948). The rule is only that a "substantial element of secrecy must exist" and this means so much that "except by the use of improper means, there would be difficulty in acquiring the information." Restatement, Torts §757 (1939). The trial court's findings in this case were fully consistent with this standard and the conclusion it reached is not only supported by the evidence but by the very fact that Mills resorted to subterfuge in order to obtain the coveted information, which would have been freely disclosed to all comers.

The only other argument which the appellants have pressed in regard to trade secrets is that the plaintiff failed to prove that either Northrop or Mills had any reason to believe that the data contained in the plaintiff's parts drawings was intended to be confidential or that a divulgence of this information would be considered a breach of confidence.[2] They rely heavily on the fact that

2. The standards which the plaintiff's proof must meet in an action for misappropriation of trade secrets are set out in the rule in §757 of the Restatement, Torts (1939):

"One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if * * *

neither of these employees had ever been expressly informed, while in the plaintiff's employ, of the confidential nature of the parts drawings, or otherwise alerted to that fact, e.g., by labels or stamps giving notice that it was secret matter. But it is well settled that detailed manufacturing drawings and tolerance data are prima facie trade secrets. See *e.g., Schulenberg* v. *Signatrol, Inc.,* 33 Ill. 2d 379, 212 N. E. 2d 865, 869 (1965). Educated employees, such as these, fully conversant with the importance of the data in the plaintiff's manufacturing process, should be aware that the information is not meant to be revealed to outsiders or used to the disadvantage of its owner. Mills might have deduced as much from the fact that, unlike assembly drawings which were freely circulated to customers, the parts drawings were not. That Mills was willing to pay for the information attests to his belief in its value. Under these circumstances we cannot say that the trial court's finding that both Mills and Northrop understood the data to be confidential was "clearly erroneous."

Appellants urge as an independent ground for reversal "bad faith and unclean hands" for the way in which the plaintiff handled its patent infringement claim. They assert that the plaintiff engaged in misconduct sufficiently pervasive to disentitle it to the relief granted in connection with the trade secret claim. On this point the trial court found that the conduct of the plaintiff was at times "inept" or "negligent" but never fraudulent or malicous, and concluded that the defendants "should not be permitted to

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(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and . . . that the third person's disclosure of it was otherwise a breach of his duty to the other, * * *."

get off scot-free merely because plaintiff's conduct in some respects may leave something to be desired." On this aspect of the case we decide that, while the record would have supported the trial judge if he had reached a contrary conclusion, it does not show that he abused his equitable discretion in reaching the one which he did.

The first instance of alleged misconduct relates to the application for a patent on the plaintiff's low ball cell which was filed by Tate with the Patent Office on July 5, 1957. Tate signed the usual inventor's oath containing the following statement: "I do not know and do not believe that this invention was ever * * * in public use or on sale in the United States for more than one year prior to this application." This statement was untrue, since, more than one year prior to the Tate application, the plaintiff had sold at least ten of the subject cells, five to the Hooker Electrochemical Company and five to Pratt & Whitney Aircraft, and, as the court noted, there was convincing evidence that Tate was aware of these sales at the time he signed the oath. The court found that Tate's conduct had been negligent, but not intentionally fraudulent. This conclusion was based upon the finding that Tate did not read the oath which he signed and that he was therefore not aware of its contents.[3] The appellants have argued rather persuasively that to excuse Tate's cavalier behavior would disregard the public's "paramount interest in seeing that patent monopolies spring from backgrounds free from fraud *or other inequitable conduct*," *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324

3. The court made the following finding: "I find that when Tate signed his oaths he was unaware of the fact that the oath contained a representation denying the existence of the sales. He signed the oaths in a purely perfunctory manner, without reading them carefully. His attention was not called to what he was signing. No investigation was made by him or by counsel to ascertain whether or not sales had in fact taken place. His representations, therefore, were negligent, but they were not intentionally fraudulent."

U. S. 806, 816 (1945) (emphasis supplied), and urge that knowledge of the oath's contents be imputed to Tate for the purpose of application of the unclean hands doctrine. Cf. *Ives* v. *Sargent,* 119 U. S. 652 (1887); *Anderson* v. *Tway,* 143 F. 2d 95 (6 Cir. 1944), *cert. denied* 324 U. S. 861 (1945). The argument has considerable force and, had the trial court been faced with the necessity of passing upon the effect of such negligence on the plaintiff's claim of patent infringement, it would have furnished a proper basis for the court to deny relief to the plaintiff on that charge, even though it concluded, that Tate had not practised wilful and intentional deceit as in *Keystone Driller Co.* v. *General Excavator Co.,* 290 U. S. 240 (1933), or perpetrated a wilful and intentional fraud on the Patent Office, as was the case in *Precision.*[4] In cases where the grant of a patent monopoly is involved a court may properly consider "both public and private standards of equity" in relation to a claim of unclean hands. *Id.* at 816. It would therefore be warranted in not condoning behavior as reckless as that demonstrated on this record by an inventor who is invested with a public trust and whose oath, which is by statute an essential part of every patent application,[5] is heavily relied upon by the authorities in the Patent Office. But the appellants' argument does not apply with equal force to the claim of misappropriation of trade secrets which, as the court noted, is to a large degree a "separate matter." Tate's misconduct before the Patent Office in 1957 is only remotely related, if at all, to the defendants' breach of trust in 1960 and subsequent years. "[M]isconduct in the abstract, unrelated to the claim to

4. Traditionally the doctrine of unclean hands has required a finding of wrongful intent or wilful misconduct and mere negligent conduct has not sufficed. See e.g., *Freeman Mfg. Co.* v. *Federal Department Stores Inc.,* 195 F. Supp. 951, 953 (D. Mich. 1961); *Helene Curtis Industries* v. *Sales Affiliates,* 121 F. Supp. 490, 512 n. 70 (S. D. N. Y. 1954).

5. 35 U. S. C. §111.

which it is asserted as a defense, does not constitute unclean hands." *Republic Molding Corp.* v. *B..W. Photo Utilities,* 319 F. 2d 347, 349 (9 Cir. 1963). Especially as the courts of equity are, in the words of the Supreme Court in *Keystone Driller Co.* v. *General Excavator Co., supra,* pp. 245-246, not restrained in applying the clean hands maxim "by any limitation that tends to trammel the free and just exercise of discretion," and in view of the "wide range to the equity court's use of discretion," *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co., supra* at 815, we are unwilling to say that the trial judge's decision in favor of the plaintiff was not permissible under the circumstances of this case.

Appellants also contend that, at the time this action was commenced, the plaintiff either knew or believed that the Marcan load cell, which is high ball, did not infringe the Tate patent which, they claim, is clearly limited to cells of the low ball type. For this they rely on the fact that Tate personally examined a Marcan cell prior to the commencement of this action, and was then of the opinion that it did not infringe his patent. The trial court refused to find that the plaintiff had acted with unclean hands on this basis, however, since, at the time the complaint was filed, Tate no longer held a position of executive responsibility in the plaintiff's management and he was therefore not consulted about whether or not to sue. The claim for patent infringement was included with that for theft of trade secrets only on the advice of plaintiff's counsel who, the court found, were then of the opinion that the Marcan load cell might be found to infringe claim 12 of the patent despite its high ball construction. The court further found that the attorneys' advice was given in good faith and that it represented their honest professional opinion at the time. This finding appears to have been based largely upon statements made by the attorneys in the course of the hearing which was held in connection with the defense

of unclean hands and therefore would depend heavily upon the credibility given to them by the trial judge. It is also supported, however, by the fact that the theory upon which the attorneys then claimed that the charge of infringement had been based, i.e., the doctrine of equivalents,[6] was asserted by them at a very early stage in the litigation in their answers to certain interrogatories propounded by the defendants. While in its opinion the trial court expressed doubt as to the merit of the plaintiff's theory, we are satisfied that the equivalents doctrine[7] was at least sufficiently pertinent to raise the question of whether the high ball cell infringed the plaintiff's patent. Moreover, the appellants have come up with no persuasive evidence that either the plaintiff or its attorneys were motivated by bad faith and there is certainly no basis for a holding that the trial court's conclusion to the contrary was clear error.

Finally appellants contend that the plaintiff acted in bad faith when it failed to withdraw the claim of patent infringement after its attorneys learned in late 1963 of the sale of Emery cells to Pratt & Whitney and after they discovered evidence of the Hooker sales in plaintiff's files in April of 1964. It is not disputed that in December of 1963 the plaintiff did offer to withdraw the pending infringement charge with prejudice; but in return it demanded that

6. Under the equivalents doctrine a device which does not correspond literally to the claims of a patent may nevertheless be held to infringe if it is functional equivalent of the subject matter of the patent. *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 339 U. S. 605 (1950). See generally 3 Walker on Patents (Deller's ed. 1937) §464 et seq.

7. A possible difficulty with the plaintiff's theory is that if the low positioning of the ball in the plaintiff's load cell constituted the advance over the prior art which made its device a patentable one (a fact not found in this case) then the plaintiff might not be able to resort to the doctrine of equivalents in order to expand the scope of the patent to include a cell of the high ball type which was a part of the prior art at the time the patent issued. See, e.g., *Lunati* v. *Barrett*, 104 F. 2d 313 (6 Cir. 1939).

the defendants agree to give up "any claims of any kind with respect to this patent and its appearance in this litigation." This was unsatisfactory to the defendants both because it left them without a judicial declaration of patent invalidity good against the world, and because it required the defendants to surrender their right to claim damages for what they consistently maintained was the intentional assertion against them of a baseless charge of infringement. When the Hooker sales were discovered in April of 1964, the plaintiff made no concessions from its earlier position, despite the fact that, according to a subsequent statement of one of its attorneys, they knew "without question" at that time that the patent was invalid. But this must have been equally apparent to the defendants, whose counsel were immediately advised of the Hooker sales by counsel for the plaintiff. If the presence of the patent infringement charge in the litigation was such a damaging brake on the appellants' sales, as they now claim,[8] their obvious recourse was to move for summary judgment on their counterclaim of patent invalidity. Having failed to do so, they cannot now maintain that the plaintiff's failure to move for a formal dismissal of that part of its action was so inequitable as to bar the relief for theft of trade secrets to which it is otherwise entitled.

8. In the testimony taken at the hearing on unclean hands the trial court found "no convincing evidence" to support the defendants' claim that the patent charge was intentionally retained in the litigation by the plaintiff in order to exploit the competitive effect which it might have on Marcan's business. The evidence did suggest, however, that the patent litigation was at times mentioned to potential Marcan customers by representatives of the plaintiff, even after the discovery of the Hooker sales. But the defendants did not affirmatively make this conduct a ground for relief in their counterclaim, as they might have, see *Cutting Room Appliances Corp.* v. *Empire Cutting Machine Co.*, 186 F. 2d 997 (2 Cir. 1951), and the trial court therefore made no findings on the extent of any damages which they may have suffered. As Judge McLean noted, they are nevertheless free to assert any remedy which is still available to them in an independent action against the plaintiff.

We have reserved as the final point for discussion the undergirding issue of whether or not there was federal jurisdiction over the "pendent" state law claim for unfair competition, to which practically all of the evidence presented at the trial was directed, in view of the rather rapid evaporation at the trial of the patent infringement issue. The complaint asserted federal jurisdiction of the subject matter under 28 U. S. C. §1338(a) and (b),[9] alleging both a substantial patent infringement claim and a charge of theft of trade secrets, to which the infringement claim related. Although it was discovered before trial, but some time after the action had been brought, that sales had been made to Hooker, we conclude that the infringement charge alleged in the complaint was substantial, at the time the complaint was filed, for the purpose of §1338 (b), as that term is defined in the case law,[10] and that it sufficed to give the district

9. 28 U. S. C. §1338(a) confers upon the district courts original jurisdiction of "any civil action arising under any Act of Congress relating to patents * * *." Section 1338(b) confers original jurisdiction "of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade mark laws."

10. The test of what is a "substantial" claim under §1338(b) is the same as that applied in determining whether a claim should be dismissed for want of jurisdiction rather than on the merits in cases involving original federal question jurisdiction. See *United Mine Workers* v. *Gibbs*, 383 U. S. 715, 725 (1966); Note 80 Harv. L. Rev. 220, 224 (1966). An allegation invoking federal law is substantial unless it "clearly appears to be immaterial and made solely for the purpose of obtaining jurisdiction. * * *" *Bell* v. *Hood*, 327 U. S. 678, 682 (1946). See also *Levering & Garrigues Co.* v. *Morrin*, 289 U. S. 103, 105 (1933); *Binderup* v. *Pathé Exchange*, 263 U. S. 291, 306 (1923); *The Fair* v. *Kohler Die Co.*, 228 U. S. 22, 25 (1913); *Strachman* v. *Palmer*, 177 F. 2d 427 (1 Cir. 1949). While questions of federal power, of which substantiality is one, "will ordinarily be resolved on the pleadings," *United Mine Workers* v. *Gibbs*, *supra*, at 727, it is doubtful that a plaintiff could create "power" in the federal court over a claim of state law by including in the complaint a federal allegation which it knows at the time to be wholly frivolous and re-

court the power to entertain and decide the unfair competition charge of theft of trade secrets.

But the existence of federal power does not mean that the trial court must or should exercise its jurisdiction in all cases where it in fact exists. As the Supreme Court made clear in *United Mine Workers* v. *Gibbs*, 383 U. S. 715 (1966), whether or not it should do so in a particular case depends upon a variety of factors calling for the exercise of the sound discretion of the trial judge. In his opinion in this case, Judge McLean expressly considered the relevant factors of "judicial economy, convenience and fairness to litigants," *id.* at 726, and, despite the fact that the plaintiff had introduced no evidence in support of its patent infringement claim, determined that it was wiser to exercise federal jurisdiction than to "dismiss the claim at this late date and to compel the parties to litigate it anew in the state court."

In its brief appellee states that the trial judge was informed during pre-trial conferences with the parties that the plaintiff "would offer no evidence relating to infringement in view of the prior use" established by the Pratt & Whitney and the Hooker sales. If this was so, then at that point, the proper procedure for the pre-trial judge to have pursued was to dismiss the plaintiff's infringement suit and declare the patent invalid pursuant to the defendants' counterclaim. This undoubtedly would have carried the trade secrets claim along with it. As the Supreme Court cautioned in *Gibbs, supra,* "Needless decisions of state law should be avoided both as a matter of comity and to promote justice between the parties, by procuring for them a surer-footed reading of applicable law. Certainly, if the

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garding which it never intends to present evidence at the trial. Although, as Emery concedes, this was so in the present case before the case went to trial in 1966, it was not true at the time the complaint was filed in 1962.

federal claims are dismissed before trial, even though not insubstantial in a jurisdictional sense, the state claims should be dismissed as well." 383 U. S. at 726. While we consider this precept as it may bear upon the present case, we are not of the opinion that Judge McLean abused his discretion in not dismissing the plaintiff's trade secrets claim for want of pendent jurisdiction. He made it quite clear that he was unaware, before the trial, that the plaintiff conceded its patent was invalid and that it intended to offer no evidence to support its claim of infringement. In its second opinion the court referred to the "aura of mystery" which surrounded the issue of patent infringement, but concluded that it could not be said that the plaintiff had actually misrepresented the facts to the court. In any event, the judge did not know of the status of the infringement issue until the trial was well under way. Under all the circumstances we conclude that the trial judge did not abuse his discretion in holding that the infringement of patent claim was substantial and related to the charge of unfair competition.[11]

The judgment of the district court is affirmed.

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11. The complaint does not allege diversity of citizenship and in fact there was no complete diversity, as both the plaintiff and the defendant Mills are citizens of Connecticut. Had we decided that the trial court abused its discretion in exercising jurisdiction under §1338 (b), there might, nevertheless, be the possibility that, even at this late stage in the litigation, the complaint could be amended to cure the jurisdictional defect by dropping Mills as a party. See *Finn* v. *American Fire & Casualty Co.*, 207 F. 2d 13 (5 Cir. 1953), cert. denied, 347 U. S. 912 (1954). But on the disposition made, we need express no opinion on the point.

Denial of Petition for Rehearing

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

THE A. H. EMERY COMPANY,

Plaintiff-Appellee,

v.

MARCAN PRODUCTS CORPORATION, MARSHALL CONTROL PRODUCTS CORP., HUGH A. MILLS, RONALD R. MARSHALL, and DAVID E. GOLDING,

Defendants-Appellants,

Petition for Rehearing, or Rehearing In Banc, by Defendants-Appellants Marcan Products Corporation, Hugh A. Mills, Ronald R. Marshall, and David E. Golding

John M. Calimafde, Esq.
Roy C. Hopgood, Esq.
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New York, New York 10017

Denied.

H.J.F.
I.R.K.
R.P.A.
U.S.C.J.J.

February 20, 1968

Judgment of the District Court

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

[SAME TITLE]

This action having come on for trial before the court, Honorable Edward C. McLean presiding, and the issues having been duly tried, and the court on February 20, 1967 having filed its opinion, constituting its findings of fact and conclusions of law, and defendants having moved for reconsideration, and the court having held a hearing upon that motion, and the court on May 31, 1967 having filed its opinion denying said motion, and the court having found that the design and engineering data contained on parts drawings of an Emery EC 30 hydraulic load cell constituted trade secrets of plaintiff, and that defendant Hugh A. Mills induced Robert Northrop, a former employee of plaintiff, to reproduce such parts drawings and deliver them to defendant Mills, in violation of Northrop's obligation to keep said data confidential, and that defendant Mills participated in that violation, and that defendant Mills delivered said parts drawings to defendant David E. Golding and defendant Marcan Products Corporation, and that said defendants wrongfully used the data disclosed by said parts drawings in the manufacture and assembly of hydraulic load cells, and that those defendants, together with defendants Marshall Control Products Corp. and Ronald R. Marshall, sold said hydraulic load cells in competition with hydraulic load cells manufactured and sold by plaintiff, it is

ORDERED AND ADJUDGED THAT:

1. The court has jurisdiction over the parties and over the subject matter of this action.

2. Defendants Marcan Products Corporation, Marshall Control Products Corp., Hugh A. Mills, Ronald R. Marshall and David E. Golding, their officers, agents, servants, employees, attorneys and all persons in active concert with them are hereby enjoined and restrained from:

(a) Using any of the design or engineering data with respect to plaintiff's Emery EC 30 hydraulic load cell disclosed by the drawings obtained by defendant Hugh A. Mills from Robert Northrop as aforesaid, in the manufacture or assembly of hydraulic load cells;

(b) Using in such manufacture or assembly any and all patterns, molds, jigs or fixtures embodying any of said data;

(c) Disclosing said data to any person and from selling or otherwise disposing of to any person any of said patterns, molds, jigs or fixtures;

(d) Selling any hydraulic load cells manufactured or assembled by defendants or any of them with the use of any of said data or any of said patterns, molds, jigs or fixtures.

3. So much of plaintiff's complaint as seeks an injunction restraining alleged infringement of U. S. Patent No. 2,960,328, and damages therefor, is dismissed.

4. U. S. Patent No. 2,960,328, is invalid under 35 U.S.C. §102(b).

5. Plaintiff shall recover from defendants Marcan Products Corporation, Hugh A. Mills and David E. Golding any damages sustained by plaintiff by reason of their wrongful use of plaintiff's trade secrets in the manufacture and assembly of hydraulic load cells, or in lieu of such dam-

ages, said defendants shall account to plaintiff for all profits realized by them from such use.

This cause is set down for a further hearing on September 13, 1967, at which testimony will be taken with respect to damages and profits.

6. Jurisdiction of this cause is retained for the purpose of giving full effect to this judgment and for the purpose of making such further orders or taking such further action, if any, a smay become necessary or appropriate to carry out and enforce this judgment.

7. Each party shall bear its own costs.

Dated: New York, N.Y.
July 12, 1967

EDWARD C. MCLEAN
United States District Judge

Judgment Entered 7-12-67
JOHN J. OLEAR JR.
Clerk

Opinion of the District Court Dated February 17, 1967

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

[SAME TITLE]

McLEAN, D. J.

In the opening paragraph of its amended complaint, plaintiff describes its action as follows:

> "This is a civil action wherein Plaintiff charges the Defendants with breach of a confidential relationship, appropriation of trade secrets, unfair competition, breach of contract, patent infringement, and conspiring to effect the above."

Plaintiff seeks an injunction, damages, an accounting of profits, and an allowance of attorneys' fees.

The patent referred to is Patent No. 2,960,328 on "weighing apparatus and systems," issued on November 15, 1960, upon an application filed on July 5, 1957, to Malcolm C. Tate, and assigned by him to plaintiff, his employer. Defendants have asserted a counterclaim seeking a declaration that the patent is invalid and that products manufactured and sold by defendants do not infringe it.

Defendants rested at the close of plaintiff's case and moved to dismiss the complaint and for judgment on their counterclaim. They assert that the evidence necessary to the determination of the counterclaim is already in the record, having been introduced in the course of plaintiff's case.

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There are differences between the claims made by plaintiff in its complaint and the evidence which it has offered to support them. At the close of its case, plaintiff conceded that it had offered no evidence of infringement and that its claim of patent infringement must therefore be dismissed on that ground. It further conceded that it had offered no evidence in support of its allegations that defendants have attempted to palm off their product as the product of plaintiff. It is also clear that there is no evidence of any express contract between the parties, and hence no showing of the breach of any such contract. What this case boils down to, as far as plaintiff's case is concerned, is the charge that defendant Mills, a former employee of plaintiff, misappropriated certain of plaintiff's trade secrets and made use of them, along with his co-defendants, to manufacture and sell a hydraulic load cell which competes with a cell manufactured and sold by plaintiff.*

The amended complaint alleges that jurisdiction of the subject matter of this action rests upon 28 U.S.C. §1338(a) and (b). There is no allegation of diversity of citizenship and in fact there is no complete diversity, as both plaintiff and defendant Mills are citizens of Connecticut.

28 U.S.C. §1338(a) confers upon the district courts original jurisdiction of "any civil action arising under any Act of Congress relating to patents * * *." Section 1338(b) confers original jurisdiction "of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade mark laws."

Although the parties have stipulated in the pre-trial order that this court has jurisdiction, they are powerless to

* The obligation of an employee not to reveal trade secrets disclosed to him in confidence by his employer has been said to rest on an "implied contract." Presumably, this is the basis of the "breach of contract" allegation in the complaint.

confer jurisdiction by consent if none in fact exists. In view of plaintiff's failure to offer any evidence in support of its claim of patent infringement, it is necessary to consider whether this court has jurisdiction of the claim of misappropriation of trade secrets. Under Section 1338(b), this comes down to whether that claim can fairly be said to be joined with "a substantial and related claim" of patent infringement. Section 1338(b) expresses the doctrine of pendent jurisdiction. Cases in fields other than patents which define that doctrine would seem to be as apposite here as patent cases.

Whether the federal claim, in this instance the claim of patent infringement, is or is not "substantial" is to be determined on the basis of the pleadings, not upon the evidence ultimately introduced at the trial.

> *United Mine Workers of America* v. *Gibbs,* 383 U. S. 715 (1966)
>
> *Levering & Garrigues Co.* v. *Morrin,* 289 U. S. 103 (1933)
>
> *Schreyer* v. *Casco Products Corp.,* 190 F.2d 921 (2d Cir. 1951), *cert. denied,* 342 U. S. 913 (1952)

On that basis, plaintiff's claim of patent infringement, properly alleged in the complaint, is substantial.

Whether the federal claim of patent infringement and the state claim of misappropriation of trade secrets are "related," depends upon whether they "derive from a common nucleus of operative fact."

> *United Mine Workers of America* v. *Gibbs, supra* at 725

Plaintiff charges that defendants used confidential information pertaining to the design and construction of plaintiff's hydraulic load cell in order to manufacture and

sell, in competition with plaintiff, a load cell which imitates plaintiff's. They claim that this conduct not only is actionable under state law, apart from patents, but that in this case it also involves federal law because the cell infringes the patent which issued to plaintiff's assignor early in the course of defendants' activities. The cell covered by the patent is the same as the cell described in greater detail in the drawings which defendants allegedly misappropriated. The design and construction of plaintiff's cell and of defendants' are "operative facts" in both the federal and state claims. Hence there seems to be a sufficient "common nucleus." The authorities in comparable situations indicate that the two claims asserted here are sufficiently related for jurisdictional purposes.

Schreyer v. *Casco Products Corp., supra*
Telechron, Inc. v. *Parissi,* 197 F.2d 757 (2d Cir. 1952)

See

Maternally Yours, Inc. v. *Your Maternity Shop, Inc.,* 234 F.2d 538 (2d Cir. 1956)
Bullock v. *Sears Roebuck & Co.,* 239 F.2d 170 (2d Cir. 1956)

It follows that the court has jurisdiction of the subject matter of this action and of both claims asserted in it.

In *United Mine Workers of America* v. *Gibbs, supra,* the Supreme Court said that even though the court has jurisdiction of the state claim, i.e., power to decide it, it must still determine, in its discretion, whether or not it will exercise that power. In the present case, as events turned out at the trial, plaintiff did not press its patent claim. But the validity of the patent must still be determined because of defendants' counterclaim. It makes no real difference, therefore, whether plaintiff offered evidence

in support of its claim of infringement or not. Moreover, the state claim of misappropriation of trade secrets has been fully and vigorously litigated. It would be highly wasteful of the time, effort and expense which both sides have expended upon this case to dismiss the claim at this late date and to compel the parties to litigate it anew in the state court. Consequently, the court will exercise its jurisdiction and will determine this entire controversy.

I turn now to the evidence, some of which is conflicting. Credibility plays an important part in some aspects of this case. I observed the witnesses on the stand and took note of their demeanor while testifying. I have taken these observations into account in deciding what testimony to accept and what to reject. Upon all the evidence which I consider credible, I find the facts to be as follows.

Plaintiff, a Connecticut corporation having its principal place of business in New Canaan, Connecticut, has been engaged for many years in the manufacture of weighing devices and of "systems" of which such devices form a part. Plaintiff enjoys an excellent reputation in that field. The hydraulic load cell with which we are here concerned is such a device. In essence, it consists of a "loading head" or platform resting upon a "load block" which in turn rests upon a piston. Below the piston is a diaphragm which covers a cavity or chamber which contains an oil-based hydraulic fluid. The device rests upon a metal base and the whole thing is enclosed in an outer aluminum casing. A protective rubber covering or "boot" surrounds a portion of the outer casing.

When the load to be weighed is placed upon the loading head, it presses down upon the block which in turn presses upon the piston, which presses down upon the diaphragm, which presses upon the fluid. The fluid then flows out into a measuring instrument which records the weight of the load.

It is necessary that such a weighing mechanism be highly accurate. Plaintiff's product meets this requirement. Plaintiff warrants its cells to be accurate to one-tenth of one per cent, i.e., the cell will not err more than one pound in recording the weight of a 1,000 pound load.

There are of course other parts to this device in the way of rings, clamps, springs, screws, etc., which I have not attempted to include in this simplified description. Most important of these additional parts, for present purposes, is the ball, which may be either "high" or "low." Plaintiff makes both types. The patent describes a "low ball" cell.

The ball is made of steel. In the low ball construction the ball is contained in a recess in the piston below the load block. The weight of the load rests first upon the ball and is transmitted through it to the piston and on down to the fluid. The purpose of the ball is to permit a slight sideways motion of the load block which may occur if the load to be weighed is placed on the loading head in an off center position instead of squarely upon it. If the block were not free to move sideways in this fashion, the lateral pressure of the off center load would distort the measurement.

In a "high ball" cell, the ball serves the same purpose. It is "high" because it is located, not in a recess within the piston, but on top of the piston under the loading head.

Defendant Mills, who figures prominently in this case, was employed by plaintiff from March 3, 1943 until March 25, 1960. Mills had had engineering training in his youth. He attended Stevens Institute of Technology and although he did not graduate, he studied mechanical engineering there which included a course in hydraulics. He also studied drafting. When he left Stevens in 1935, he went to work for the Norma-Hoffmann Bearings Corporation in Stamford, Conn., where he was engaged in engineering research. He left Norma-Hoffman to enter plaintiff's employ as an engineer. He continued to do work of an en-

gineering nature until 1946 or 1947 when he transferred to selling activities and devoted the principal part of his time to soliciting orders. Mills became thoroughly familiar with the design and construction of plaintiff's cell and with plaintiff's manufacturing technique.

On March 25, 1960, Mills was dismissed from plaintiff's employ. Plaintiff considered that his services as a salesman were not sufficiently productive. Other reasons were hinted at but never fully explained. Mills was surprised and shocked by his dismissal. There seems to be no doubt that after his dismissal he harbored ill feeling toward plaintiff, whatever plaintiff's feelings may have been toward him.

In July 1960, a few months after his dismissal, Mills made the acquaintance of defendant Marshall, who was a manufacturers' sales representative in a small way. Among the companies for whom he solicited business was a manufacturer of weighing systems of a type wholly different from those involved here. Marshall shared office space at 60 East 42nd Street, New York, with defendant Golding, who did business with Reuben Scherr under the name of David E. Golding & Associates. They did "consulting" work of an engineering nature. Golding has a degree in industrial engineering from Rensselaer Polytechnic Institute.*

On July 26, 1960, Golding and Scherr incorporated defendant Marcan Products Corporation (Marcan) under the laws of New York. Although Scherr was president, he took no active role in the company. Golding was vice president and chief executive. Although the principal corporate purpose of Marcan, according to its certificate of incorporation, was to "conduct a mercantile business dealing in plastic and other materials," Golding testified that its business

* Golding's accountants also shared this office. Since the entire space amounted to only some 450 square feet, the premises would seem to have been somewhat crowded.

was "to manufacture and sell weighing systems." He testified further that Marcan actually did not manufacture anything. It "only assembled, calibrated and tested."

On August 2, 1960, approximately a week later, Mills, Marshall and a third man, Toll, formed defendant Marshall Control Products Corporation (Marshall Control), a New York Corporation. Toll's only contribution was part of the capital. He did not participate in the operation of the business. The purpose of Marshall Control was to act as manufacturers' sales representative. Among the "manufacturers" which it represented was Marcan. Marshall Control had its office at the 60 East 42nd Street suite along with Marcan, David E. Golding & Associates and the accountants.

At some time in 1959 Mills had assembled a complete Emery cell out of discarded parts, some of which he obtained from plaintiff's premises and some of which he procured at a junk yard. He did this at his home in New Canaan, Conn. The cell was one of plaintiff's standard models, type "EC 30."* It had a "low ball."

Mills testified that his purpose in assembling this cell was to enable his daughter to exhibit it at a junior high school science fair. Although this may have been his purpose at that time, shortly after his discharge he put it to quite a different use. In August 1960 he brought the cell to Golding in New York. He did so in order to ascertain whether Golding could copy it with a view to having the copy manufactured and sold in competition with plaintiff. Golding thought that he could, despite the fact that he had had no previous experience with hydraulic load cells.

*This designation has caused some confusion in this case where the witnesses have made it a practice to refer to the different sizes of cells by the square inch area of the piston. The "30" in "EC 30" does not purport to refer to that area. The square inch area of the piston in this model is 25 square inches. Another size which will be subsequently referred to has a piston area of 45 square inches.

Golding disassembled the cell and made crude sketches of certain of its parts. In studying it, he had the advantage of one of plaintiff's assembly drawings of an Emery low ball EC 30 cell. Golding was vague as to how he obtained this drawing. It is obvious that Mills must have brought it to him. I so find.

Golding's next step was to hire a professional draftsman, the Hoffman Company, to make an assembly drawing of the low ball cell. Hoffman also made an assembly drawing of a high ball cell. Apparently at that point Golding had not decided which type he would attempt to make.

On September 1, 1960, Golding requested quotations from various foundries for the supply of castings for certain parts of the cell. Several quotations came to him by late September.

At about that time, Golding consulted Treichler, a machinist who did business in New Jersey under the name of Nirol Manufacturing Company. Golding explained the project to Treichler, showed him the parts of the Emery cell which Mills had given him, and asked Treichler to design jigs for use in manufacturing certain of these parts. Treichler made drawings for jigs in November 1960.

In the meantime, on October 31, 1960, Marshall Control submitted a quotation to Scientific Design Co. Inc. offering to sell to it four "Marcan Hydraulic Load Cells" and other instruments which together make up a weighing system. The quotation was signed by Mills. On November 11, 1960, Scientific Design Co. Inc. accepted the order and sent its purchase order to Marshall Control, directed to Mills' attention, for the weighing system.

On November 15, 1960, the Tate patent on a low ball cell was issued and assigned to plaintiff. Mills promptly heard about it and secured a copy of it. This obviously raised a problem. Mills and Golding consulted Hopgood, a patent lawyer, on the subject. In December 1960, Hop-

good advised them that in his opinion the low ball cell which they contemplated making would infringe the patent, but a high ball cell would not. Mills and Golding decided to make the high ball type. They called their cell an M-25 because the area of the piston was 25 square inches, the same as the Emery EC 30.

They pushed ahead on the project in order to be in a position to fill the order from Scientific Design. On December 4, 1960 Golding, on behalf of Marcan, ordered some rubber "boots" for the cell from Minor Rubber Company, whose place of business was in New Jersey. This was the company which supplied boots to plaintiff. Golding and Mills of course knew this. Indeed, the purchase order specifies that the boots are to be "identical with part No. A-14662-Neoprene Dirt Seal made for the A. H. Emery Co. of New Canaan, Conn." Minor supplied the boots. In making them, it used molds in its possession which belonged to plaintiff.*

Treichler obtained jigs from a tool maker and castings from a foundry and set about machining the castings. Early in January the first cell was ready for assembly. Treichler had had no previous experience with hydraulic load cells any more than Golding had. Mills showed them how to test it. The work of assembling the cell was done at Marcan's plant in New Jersey.

On January 31, 1961, Marshall Control shipped the instruments constituting the weighing system, including the four Marcan M-25 cells, to Scientific Design in fulfillment of its order. The cells were of the high ball type, but except for the location of the ball, which required a higher piston and a correspondingly higher outer casing, they were essentially the same as plaintiff's EC 30 cell. A few

* Plaintiff found out about this considerably later and put a stop to this use of its property. In June 1962, Marcan ordered its own molds from Minor.

minor differences in a dimension here and there were without significance in the functioning of the cell.

I come now to the subject of drawings, which is the crux of this case. The evidence satisfies me, and I so find, that it is impracticable to construct a cell which will have the necessary accuracy merely by looking at another cell and attempting to copy it. Detailed working drawings of the different parts, drawings which show precise tolerances and very exact dimensions, are essential. A dimension can, it is true, be determined in most instances by very careful measurement of an existing physical part, but a tolerance cannot. Tolerance is the extent to which a part may vary from a particular dimension and still work properly. Obviously, a physical part can reveal to an observer only what its dimension actually is, not how much larger or smaller it might be.

These precise dimensions and tolerances were not disclosed in the Tate patent.

Treichler made a set of drawings for the various parts of a 25 square inch cell. The Marcan cell was made from these drawings.

Each drawing is dated January 2, 1961. The drawings show tolerances as well as dimensions. Some of them specify the material of which the part is composed, notably "C 1117 steel" and "Ryerson 5-317" steel. Defendants claim that Treichler made these drawings from observing the parts of the Emery cell which Mills had brought to Golding and from information given him by Golding's sketches and orally by Golding and Mills. I do not accept this claim, for reasons which will presently appear.

Robert Northrop was a draftsman employed by plaintiff for eleven years until September 1960, when he left plaintiff's employ. He had spent most of those eleven years drawing parts of Emery cells, particularly the EC 30 cell which was Emery's principal product. He was thoroughly familiar with their dimensions and tolerances.

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In December 1960, in Connecticut, Mills asked Northrop to prepare a complete set of drawings for parts of a cell having a 25 square inch piston area. This could only mean the Emery EC 30, the cell with which Northrop was so thoroughly conversant. It is plain that this is what Mills intended, whether he expressly said so or not, and that Northrop so understood. Northrop agreed to do so.

Northrop prepared a complete set of parts drawings for an EC 30 low ball cell, showing dimensions, tolerances and also specifying "C 1117 steel" and "Ryerson 5-317" steel. He drew these from memory, doing his best to duplicate the drawings of plaintiff's EC 30 parts. Northrop did this work at his home in Connecticut. He delivered his drawings to Mills in Connecticut. Mills delivered them to Golding in New York. Golding knew that they came from Northrop. He also knew that Northrop was an ex-employee of plaintiff.

The Treichler drawings dated January 2, 1961, for the most part, contain the same dimensions, and more important, the same tolerances, as the Northrop drawings. Moreover, it appears that Northrop's memory was faulty in some respects and that some dimensions shown on his drawings differ from those of the actual Emery part. In such instances, Treichler's drawings reflect Northrop's dimensions, not the actual dimensions of the part which Treichler purported to measure. There are too many instances of this sort to attribute them to coincidence.

Moreover, the evidence shows that one cannot tell by looking at a piece of steel that it is "C-1117," but nevertheless this designation appears on both the Treichler and the Northrop drawings. Finally, to cap the climax, it turns out that "Ryerson 5-317" steel which is specified on both the Northrop and Treichler drawings, was a mistake on Northrop's part. The Ryerson company does not make a steel of that designation. The conclusion is irresistible

that Treichler copied the Northrop drawings, with such changes as were made necessary by the different location of the ball, the higher piston and casing, and with a few minor differences which may in fact have been contributed by Golding.

Another fact may be noted which strengthens this conclusion. Some of the figures on certain of Treichler's drawings have been altered. The testimony of a handwriting expert called by plaintiff demonstrates that the figures which appeared on the drawings prior to the alteration are the same as those on the corresponding Northrop drawings.

Mills, Golding and Treichler all denied the copying. They offered no plausible explanation of why the drawings which Mills had taken the trouble to obtain were not used. I do not believe their testimony in this respect. I find that Mills, Golding and Treichler did use the information contained in the Northrop drawings to enable them to construct the Marcan M-25 cell.

Unless Treichler's drawings, all of which are dated January 2, 1961, are misdated, Treichler must have had access to Northrops' drawings before that date. It is most probable that he did, in view of the fact that Marcan's first cells were shipped on January 31 and that detailed parts drawings were necessary to the manufacture of a successful cell. Northrop's testimony on direct is not seriously inconsistent with this view. He testified that Mills requested him to make the drawings "around Christmastime" of 1960, and that he delivered them "three or four weeks" later. Northrop's recollection, after almost six years, could easily have been mistaken on a matter of a few weeks. Moreover, Mills testified that he made his request of Northrop in late November or early December, and he buttressed this date with a convincing recollection that on the occasion of his visit to Northrop, his automobile was stuck in Northrop's driveway in the first snow of the year. I accept Mills'

recollection rather than Northrop's as to the date of the request. A delivery of the drawings "three or four weeks" thereafter would mean a delivery in late December 1960 which ties in neatly with Treichler's date of January 2, 1961 on his copies.

It is true that on cross examination Northrop was shown a check drawn by Mills to Northrop's order in the amount of $150. The check is dated June 14, 1961. Northrop thereupon changed his testimony and said that he delivered the drawings in June, when he received this check in payment for his services. I believe that he was mistaken in so testifying. The probabilities are either taht there was a delay between the delivery of the drawings and Mills' payment therefor, or that the payment in June was for another set of drawings mentioned hereinafter.

I find, therefore, that Northrop delivered his drawings of EC 30 parts in late December 1960, that Treichler copied much of the data, and that Treichler's date of January 2, 1961 on his drawings is at least approximately correct. I may note, moreover, that even if the delivery was later, which would mean that Treichler's drawings are misdated, it would still make no material difference, for the essential point is that Northrop's data was used by Treichler, whenever he obtained it, with the knowledge and consent of Mills and Golding, to construct the Marcan cell, and as to that I have no doubt.

In the summer of 1961, Marcan began the manufacture of a larger high ball cell called M-45 because it had a piston area of 45 square inches. Treichler made a set of drawings of parts for this as well. Some of the drawings are dated April 16, 1961, some May 12 and 15, 1961, and the rest July 26, 1961.

In the spring of 1961, Mills approached another Emery employee, Bradley, and asked him to do some drafting

work for him with respect to weighing equipment. Bradley refused.

Thereafter, Mills acquired some drawings of an Emery cell which was of a larger size than the EC 30. Mills delivered these drawings to Golding. Golding knew where they came from. Just when Mills acquired them does not appear. These drawings were never produced, hence it is impossible to be sure that the cell to which they related was a 45 square inch cell, although one may suspect that it was. Because the drawings are missing, it is impossible to compare them with Treichler's drawings, as can be done in the case of the M-25.

Mills tstified that these drawings were made by Northrop while Northrop was in plaintiff's employ, but that he, Mills, did not obtain them from Northrop, but rather from a sales representative of plaintiff, Shannon. Shannon, who is no longer employed by plaintiff, was not called as a witness by either side. Northrop denied any part in this transaction. It makes no difference in this case whether he was a party to it or not.

Mills and Golding each testified that as in the case of the drawings for the smaller cell, they made no use of the Northrop drawings for the larger cell. Although the drawings are not available to refute this testimony, it is so highly unlikely that I do not credit it. The probabilities are that Mills, Golding and Treichler used this data in the construction of the M-45 cell.

Subsequent events which occurred after this action was begun on January 17, 1962 may be briefly noted. In February 1962, Mills sold his stock in Marshall Control to Marshall and entered directly into Marcan's employ. Early in 1963, Marcan began to manufacture a low ball cell of the type covered by plaintiff's patent. Before doing so, Mills and Golding consulted Hopgood again. He ad-

vised them that in his opinion they might safely do so because plaintiff's patent was invalid.

In May 1963, Golding and Scherr sold their stock in Marcan to Mills and disappeared from the scene. Mills has operated Marcan ever since, manufacturing both high ball and low ball cells. Treichler continued to work for Marcan until sometime in 1966, machining parts for the cells.

There is not much evidence as to how many cells Marcan manufactured and sold. Golding testified that until his departure in 1963, Marcan made something over 50 M-25 cells and around 20 or 30 M-45s.

I turn now to a consideration of the law pertaining to trade secrets. Further facts which must be found in order to determine the application of these legal principles to this case will be referred to in the course of this discussion.

The law which governs this aspect of the case is state law. A question naturally arises at the outset as to which state law, as a matter of conflicts, is to be applied. If this were a diversity case, this court would follow the New York rule of conflict.

> *Klaxon Co.* v. *Stentor Electric Manufacturing Co.*, 313 U. S. 487 1941).

But this is not a diversity case, but rather one in which the state claim is within the court's jurisdiction because it is pendent to the federal patent claim. No authority has been found which specifies the conflicts rule to be followed in such a situation. It seems appropriate, however, to adopt the New York rule, particularly since, as far as appears, there is no federal rule of conflicts peculiar to pendent jurisdiction cases.

Under New York's grouping of contacts principle (*Babcock* v. *Jackson*, 12 N.Y.2d 473, 191 N.E.2d 297 (1963), theoretical difficulties could arise in choosing the appropriate state law among three possibilities, Connecticut,

New York and New Jersey. It was in Connecticut that Mills and Northrop were employed by plaintiff. It was there that they learned about the design and construction of plaintiff's load cell. It was there that Mills made the cell out of discarded parts and he there induced Northrop to make the drawings. Northrop made the drawings in Connecticut.

On the other hand, Golding and Marshall were in New York, the two corporations, Marshall Control and Marcan, were New York corporations doing business in New York. Mills brought the Emery cell and the Northrop drawings to Golding in New York. It was in New York that the enterprise of copying plaintiff's product was conceived, and from New York that it was directed.

Most of the physical work was done in New Jersey at Treichler's place of business, and at Marcan's plant. It was also in New Jersey that Minor supplied Marcan with the boot made from plaintiff's molds.

Fortunately, the problem, however difficult in theory, has no practical importance in this case. There seems to be no material difference on this subject between the law of Connecticut and New York, or between either of them and New Jersey. The case is governed by general common law principles. The decisions in all three states rely upon Section 757 of the *Restatement, Torts* (1939). Decisions in other states cite it also. They would seem to be as valuable as decisions of Connecticut, New York and New Jersey in exemplifying the common law.

Section 757 of the *Restatement* states the basic rule as follows:

> "One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if * * *

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and * * * that the third person's disclosure of it was otherwise a breach of his duty to the other, * * *."

Leading cases in Connecticut, New York and New Jersey, respectively, which illustrate this general principle are:

Allen Manufacturing Co. v. *Loika,* 145 Conn. 509, 144 A.2d 306 (1958)
Tabor v. *Hoffman,* 118 N.Y. 30, 23 N.E. 12 (1889)
Sun Dial Corp. v. *Rideout,* 16 N.J. 252, 108 A.2d 442 (1954)

A confidential relationship exists between an employee and his employer. It survives the termination of his employment. It does not depend upon any express contract. Disclosure by an employee of a trade secret entrusted to him by his employer in the course of his employment is the classic instance of a disclosure which constitutes a breach of confidence and which is therefore actionable. It is not necessary that the employee expressly agree not to disclose it.

Sperry Rand Corp. v. *Rothlein,* 241 F.Supp. 549 (D.Conn. 1964)
Allen Manufacturing Co. v. *Loika, supra*
Little v. *Gallus,* 4 App. Div. 569, 38 N.Y.Supp. 487 (4th Dept. 1896)
Friedman v. *Stewarts Credit Corp.,* 26 N.Y.S.2d 529 (Sup. Ct. 1939), *aff'd* 261 App. Div. 990, 26 N.Y.S.2d 533 (2d Dept. 1941)

Thiberg v. *Bach,* 107 F.Supp. 639 (D.N.J. 1952), *aff'd,* 203 F.2d 956 (3rd Cir. 1953)
Sun Dial Corp. v. *Rideout, supra*

And third parties who use the secret with knowledge of the breach of confidence are equally liable with the ex-employee himself.

Lamont, Corliss & Co. v. *Bonnie Blend Chocolate Corp.,* 135 Misc. 537, 238 N.Y.Supp. 78 (Sup. Ct. 1929)
Friedman v. *Stewarts Credit Corp., supra*
Minnesota Mining & Mfg. Co. v. *Technical Tape Corp.,* 192 N.Y.S.2d 102 (Sup. Ct. 1959), *aff'd,* 15 App. Div. 2d 960, 226 N.Y.S.2d 1021 (2d Dept. 1962)
Stone v. *Goss,* 65 N.J.Eq. 756, 55 Atl. 736 (Sup. Ct. Err. & App. 1903)

These principles are well settled. The principal legal question here is whether what Mills disclosed, and what he induced Northrop to disclose, was a trade secret. According to the *Restatement,* a trade secret may consist "of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."

Restatement, Torts §757 comment b (1939)

Secrecy is a relative term. The information may be known to several persons and yet may still be secret if third parties would be willing to pay for a breach of trust in order to ascertain it.

L. M. Rabinowitz & Co. v. *Dasher,* 82 N.Y.S.2d 431 (Sup. Ct. 1948)

Detailed drawings and blueprints of a machine can be trade secrets.

Schreyer v. *Casco*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952)
L. M. Rabinowitz & Co. v. *Dasher*, *supra*
Adolph Gottscho, Inc. v. *American Marking Corp.*, 35 N.J.Super. 333, 114 A.2d 19 (1954), *aff'd*, 18 N.J. 467, 114 A.2d 438 (1955), *cert. denied*, 350 U.S. 834 (1955)
Solo Cup Co. v. *Paper Machinery Corp.*, 240 F. Supp. 126 (E.D. Wisc. 1965), *modified*, 359 F.2d 755 (7th Cir. 1966)
Servo Corp. v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. denied*, 383 U.S. 934 (1966)
Schulenburg v. *Signatrol, Inc.*, 33 Ill.2d 379, 212 N.E.2d 865 (1965)

And it is as much a breach of confidence for an employee to reproduce his employer's drawings from memory as to copy them directly.

Adolph Gottscho, Inc. v. *American Marking Corp.*, *supra*
See *Sperry Rand Corp.* v. *Rothlein*, *supra*

Prior to this action, plaintiff did not stamp its parts drawings with the word "confidential" or "secret."* But such an express labelling is not necessary to make them a secret, if in fact they were confidential.

Allen Manufacturing Co. v. *Loika*, *supra*

Defendants contend that plaintiff's parts drawings were freely made available to third persons and hence were not

* Plaintiff has done so subsequently, obviously as a result of this experience.

in fact kept secret. The evidence does not convince me that this contention is correct.

It seems to be true that plaintiff sent out assembly drawings from time to time to its customers and published such drawings, or simplified schematic diagrams of the cell, in instructional manuals, advertising brochures and the like. It is also true that a man named Roessler, in August 1958, published an article in a technical journal, with plaintiff's knowledge and acquiescence, which discussed the Emery cell and illustrated it by diagrams and figures. But assembly drawings and diagrams are different from parts drawings. They are overall representations of the entire cell. They do not contain as much detailed information as is set forth upon the actual drawings of the separate components. Although it is also true that from time to time customers and other third parties visited plaintiff's plant, they were not permitted unrestricted access to plaintiff's design and manufacturing information. The parts drawings were kept in the engineering department room, the doors to which were locked at night. I do not believe Mills' testimony to the contrary.

Upon all the evidence, I find that the detailed data contained in the parts drawings was intended by plaintiff to be confidential and in fact was kept confidential, for use only by plaintiff's employees in the course of their employment, and that the employees, specifically Mills and Northrop, so understood.

Finally, a contention upon which defendants place considerable emphasis must be considered. They point to the principle, mentioned in many of the cases, that a man may copy another man's work with impunity, assuming that it is not patented, as long as he bases his copy on his own observation of the product. Whatever the unpatented machine itself discloses is not a trade secret. Defendants claim that this is the case here. In making that claim, they

have directed their attack primarily against a list of alleged trade secrets, in the nature of a bill of particulars, which plaintiff filed with the court, at the direction of Chief Judge Ryan, early in the course of this litigation. Apparently at the time this list was prepared, plaintiff was unaware of the activities of Mills and Northrop with respect to parts drawings, evidence of which plaintiff subsequently discovered.

This document itemizes certain features of plaintiff's cell which plaintiff considers particularly important to the accuracy of the device. These include the neoprene disc, the purpose of which is to eliminate friction, the raised plateau in the base, to reduce pinching of the diaphragm when the cell is under load, "distorted" dimensions of the piston and the casing ring to allow for the "seating" of the wires which support the bridge ring, and the like. Although it is doubtless true that these features have been carefully developed by plaintiff after long experience, through laborious trial and error, the fact remains that, at least in large measure, they are observable to the naked eye of the would-be copier, once the cell has been broken down into its component parts.* Although I do not believe that Golding and Treichler in fact did measure the various parts of the cell which Mills brought them with great precision, since they no doubt found it easier to rely on the Northrop drawings, it is hard to see how, under the circumstances, these items listed in plaintiff's bill of particulars can fairly by said to be trade secrets.

But there is more to plaintiff's case than these physical features. Primarily there are the Northrop drawings

* There may be some question as to whether this is true of the neoprene disc which, according to Tate's testimony, is apt to be reduced to a "gummy mess" through use, so that it would be difficult accurately to measure such a disc in a used cell.

of plaintiff's EC 30 cell.* Not only do these drawings record the dimensions of the various parts with greater accuracy than a copier would be likely to measure them, but more important, they contain precise tolerance information which the copier needed to have in order to know the extent to which he might safely deviate from the prescribed dimensions. Some of these dimensions must be adhered to down to a tiny fraction of an inch in order to achieve accuracy of performance. Generally accepted commercial tolerances will not suffice. The allowable clearances, i.e., the permissible distance between two parts, which are ascertainable from the drawings, are equally essential. Working drawings of a machine as sensitive as this might well be thought to be more important than the drawings of the machines which were involved in the cases cited above. Certainly, they are no less so. I see no reason to differ from the holdings of those cases nor any basis upon which they can be properly distinguished from the present case. I conclude, therefore, that the parts drawings were valuable trade secrets.

In addition to the drawings themselves, Mills also brought to the Marcan enterprise his knowledge of plaintiff's manufacturing techniques, his appreciation of the proper "feel" and "fit" of the parts, all that intangible expertise which is customarily referred to as "knowhow." This knowledge and skill he had acquired in the course of his employment with plaintiff. It pertained specifically to plaintiff's product. It was not a mere general mechanical knowledge and ability. This knowledge is in the nature

* Mention may also be made again of the drawings made by Northrop of the larger Emery cell which Mills obtained from Shannon and which, it seems probable, were also used by Golding and Treichler, although plaintiff was unable to prove this in the absence of the drawings themselves. Shannon was not authorized to make these available to Mills, any more than Northrop was.

of a trade secret, at least the cases treat it as analogous. For Mills to employ it for his own advantage and that of his associates to plaintiff's detriment was a breach of confidence.

Thiberg v. *Bach, supra*
Adolph Gottscho, Inc. v. *American Marking Corp., supra*
L. M. Rabinowitz & Co. v. *Dasher, supra*

I conclude that Northrop violated his obligation to keep confidential the engineering data disclosed by the parts drawings when he reproduced those drawings from memory. I conclude that Mills induced and participated in this violation. He is in no better position than if he had extracted copies of the drawings from plaintiff's files. I conclude that Golding, who used the drawings in the construction of the Marcan cell, with full knowledge of the fact that they had been obtained through a breach of trust, is equally responsible with Mills for that breach. Liability also rests upon Marcan which made and sold the offending cell.

As to Marshall Control and Marshall individually, the situation is different. Marshall Control was a sales representative of Marcan from the beginning, and apparently still is. There is little or no evidence as to its activities, except with respect to obtaining the first order for a Marcan cell, the order from Scientific Design, received in November 1960. Mills, who was then a part owner of Marshall Control, seems to have been the man who handled this order primarily, although Marshall introduced him to the customer in the first instance. Plaintiff has not proved that Marshall had any part in the construction of the Marcan cell, although, of course, he must have been aware of it. Plaintiff has not proved that Marshall had anything to do with obtaining or using the Northrop drawings.

Plaintiff has failed to show that Marshall participated in Mills' breach of trust.

Plaintiff is entitled to injunctive relief against all defendants restraining them from using the trade secrets which were misappropriated. I feel the need of further argument on the scope and duration of that relief, particularly as to whether it is appropriate in this case to limit the injunction to a specified time period, as was done in *Triangle Sheet Metal Works, Inc.* v. *Silver,* 154 Conn. 116, 222 A.2d 22 (1966). I will hold a hearing for this sole purpose at 10:00 A.M. on Monday, February 27, 1967.

Plaintiff is also entitled to recover damages, if it can prove any, from Mills, Golding and Marcan, or in lieu of damages, to an accounting of profits from those three defendants. Plaintiff has failed to prove a sufficient participation in the wrong on the part of Marshall Control or Marshall individually to entitle it to damages or an accounting of profits as to those defendants. A date for the taking of testimony with respect to damages and profits will be fixed after the injunction has been issued. At that hearing both sides may offer testimony, if they so desire, with respect to attorneys' fees.

Defendants' Counterclaim

Although during the course of the trial, defendants introduced a volume of prior patents said to constitute such prior art as to render the Tate patent invalid, they offered no testimony with respect to these patents and at the close of the case they stated that they did not seek a determination of invalidity on this ground. They limit their attack on the Tate patent to two contentions:

(1) That is is invalid under 35 U.S.C. §102(b) because the invention was "in public use or on sale in this country,

more than one year prior to the date of the application" for the patent.

(2) That it is invalid under 35 U.S.C. §112 because the specification does not contain "a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains * * * to make and use the same * * *."

As to the first contention, inasmuch as the application was filed on July 5, 1957, the question is whether the invention was in public use or on sale in this country prior to July 5, 1956. It is undisputed that on March 28, 1956 plaintiff sold and delivered to Hooker Electrochemical Company five cells which embodied the invention disclosed in the patent. Hooker paid for these cells on April 9, 1956. It is also undisputed that prior to May 25, 1956, plaintiff sold and delivered five such cells to Pratt & Whitney Aircraft, a division of United Aircraft Corporation, and that Pratt & Whitney paid for them by that date.

Plaintiff suggests that these sales do not invalidate the patent because they were for an experimental rather than a public use. On this issue plaintiff has the burden of proof, which it can discharge only by unequivocal and convincing evidence.

> *Aerovox Corporation* v. *Polymet Mfg. Corporation*, 67 F.2d 860 (2d Cir. 1933)
> *Robine* v. *Apco, Inc.* 227 F.Supp. 512 (S.D.N.Y. 1964)

There is no such evidence here. Plaintiff offered no explanation whatever of the sale to Hooker which, for all that appears, was a straight commercial transaction. As to the sales to Pratt & Whitney, there are a few documents, never satisfactorily explained, which indicate that in Jan-

uary 1956, plaintiff submitted to Pratt & Whitney several alternative designs for "ball heads" for EC 30 and EC 60 cells which Pratt & Whitney had previously purchased. The most that these documents can be said to show is that Pratt & Whitney was experiencing some difficulty with the cells and that plaintiff was suggesting some possible modification. In February 1956, Pratt & Whitney returned some cells to plaintiff for "repair, overhaul and modification." This evidence falls far short of proving that the sales to Pratt & Whitney were experimental rather than in the ordinary course of business.

I find that the invention disclosed by the patent was in public use and on sale in this country more than one year before the application was filed. The patent is therefore invalid under 35 U.S.C. §102(b). It is thus unnecessary to consider the question raised under Section 112.*

Defendants are entitled to judgment on their counterclaim declaring that the patent is invalid under 35 U.S.C. §102(b). Under the circumstances, it is unnecessary to determine whether or not defendants' products infringe the patent. So much of plaintiff's complaint as seeks an injunction restraining infringement of its patent, and damages therefor, is dismissed.

Pursuant to Rule 52(a), this opinion constitutes the court's findings of fact and conclusions of law.

Dated: February 17, 1967

Edward C. McLean
U. S. D. J.

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* Plaintiff's reply brief in effect concedes the invalidity of the patent by stating, "We accept the fact that the Court may feel compelled to declare the Tate patent invalid." Plaintiff's attorneys appear to have been unaware of the sales to Hooker and to Pratt & Whitney when they began this action in January 1962. With commendable frankness, they disclosed the sale to Hooker in a letter to defendants' attorneys dated April 16, 1964.

Opinion of the District Court Dated May 31, 1967

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

[SAME TITLE]

McLEAN, D. J.

On February 20, 1967, I filed my decision in this action holding (1) that plaintiff was entitled to an injunction restraining defendants from using plaintiff's trade secrets which defendant Mills misappropriated, and (2) defendants were entitled to judgment on their counterclaim declaring plaintiff's patent No. 2,960,328 invalid under 35 U.S.C. §102(b). The facts are fully set forth in that opinion and will not be repeated here. No judgment has as yet been entered.

On March 6, 1967, defendants filed their "Motion for Reconsideration" in which they asked the court to deny all relief to plaintiff because of plaintiff's "bad faith and unclean hands." Although defendants' procedure is somewhat unorthodox, I nevertheless entertained the motion and took testimony concerning it at a hearing held on March 7 and March 15, 1967. Meanwhile, issuance of an injunction has been withheld pending the determination of the motion.

The motion is based upon plaintiff's handling of its patent claim which, in the light of hindsight, appears to have been singularly inept. Based upon the testimony developed at the hearing and also to some extent upon that adduced at the earlier trial, I find the facts to be as follows.

Prior to June 1961 Malcolm C. Tate was a principal stockholder of plaintiff. He was in charge both of its sales

and engineering. In June 1961 he and his father sold their controlling stock interest in the company to another corporation which has since operated it as a subsidiary. The company has been in business for many years, but prior to June 1961 its staff was small. There were only three or four people in the engineering department and only three full-time salesmen. Most of the selling was done through agents or "representatives." In addition to heading up engineering and sales, Tate also passed upon the company's advertising, which was prepared by an outside copywriter.

In March 1957 plaintiff decided to apply for a patent upon Tate's invention of the hydraulic load cell with which this action is concerned. Plaintiff retained the firm of patent attorneys which represents it in this action to prepare the application. This was the first piece of legal business that these attorneys had undertaken for plaintiff. They had no prior knowledge of plaintiff's business.

They prepared the application, which was filed with the Patent Office on July 5, 1957. Attached to it was the usual inventor's oath, on a printed form, signed by Tate on June 18, 1957. It contained a statement that:

> "I do not know and do not believe that this invention was ever known or used before my invention or discovery thereof * * * or in public use or on sale in the United States for more than one year prior to this application."

On September 14, 1960, while the patent application was still pending, Tate signed and filed with the Patent Office a "supplemental oath" in which he repeated this statement.

I found in my decision filed on February 20, 1967, and it is not disputed here, that in March 1956 plaintiff sold and delivered to Hooker Electrochemical Company five cells which embodied this invention. I also found that

prior to May 25, 1956 plaintiff sold and delivered five such cells to Pratt & Whitney Aircraft. As to the latter, there was some suggestion at the trial that the sales were for experimental purposes only, but I held that this had not been proved to be the case. Plaintiff did not prove it any more effectively at the post-trial hearing. In any event, regardless of the Pratt & Whitney transactions, the sales to Hooker concededly were straight commercial sales which occurred more than one year prior to the filing of the patent application. Tate's statement in his two oaths negating such sales was therefore untrue.

Tate testified at length both at the trial and at the post-trial hearing. I have had ample opportunity to observe him. I believe that he is an honest man. I am convinced that he did not perpetrate an intentional fraud upon the Patent Office.

Although he does not now recall it, it is probable that in June 1957 Tate was aware of the prior sales of the cells to Hooker and to Pratt & Whitney. Plaintiff's organization was so small that Tate had more familiarity with plaintiff's operations than would be true of a sales and engineering executive in a larger company. Moreover, the evidence shows that within a few days of the time that Tate signed his affidavit in June 1957, he approved advertising material which prominently mentioned the Hooker sale.

Whether he remembered the sales or not, however, I find that when Tate signed his oaths he was unaware of the fact that the oath contained a representation denying the existence of such sales. He signed the oaths in a purely perfunctory manner, without reading them carefully. His attention was not called to what he was signing. No investigation was made by him or by counsel to ascertain whether or not such sales had in fact taken place. His representations, therefore, were negligent, but they were not intentionally fraudulent.

The patent issued on November 15, 1960. According to Tate it covers only a low ball cell. Before this action was begun in January 1962, various officers of plaintiff, including Tate, examined a Marcan cell. They observed that it was of the high ball construction. Tate did not think that it infringed his patent. Plaintiff's patent attorneys believed otherwise. They advised plaintiff to sue for patent infringement as well as for theft of trade secrets. Plaintiff proceeded to do so. Tate was not consulted about whether or not to sue. By that time he no longer had executive responsibility under plaintiff's new management.

Defendants have put forth persuasive arguments to the effect that Tate was right and plaintiff's attorneys were wrong, i.e., that the patent does not cover a cell of high ball construction. I need not decide that question here. Regardless of the merits of that question, I am satisfied that in giving their advice to plaintiff, plaintiff's attorneys acted in good faith and that they expressed their honest professional opinion.

There came a time in the course of this litigation when plaintiff at least discovered that cells embodying Tate's invention had in fact been sold more than one year prior to the filing of the patent application. Defendants seem to have been instrumental in first bringing this fact to light. It was defendants who discovered the Pratt & Whitney sales by inquiry of Pratt & Whitney. Plaintiff seems to have believed that the evidence as to these sales might not be fatal to the validity of its patent because of the possibility that the sales were only experimental. But finally, in the spring of 1964, one of plaintiff's attorneys, in the course of searching plaintiff's files, came up with evidence of the sales to Hooker which were clearly not experimental. Plaintiff's attorneys advised defendants' attorneys of this discovery by letter dated April 16, 1964.

Thereafter plaintiff made some ineffectual efforts to obtain defendants' consent to a withdrawal of the patent from this action. Defendants had asserted a counterclaim seeking a declaration of invalidity of the patent. Consequently, they were unwilling to consent to the withdrawal unless plaintiff would concede that the patent was invalid. Plaintiff was not willing to make this concession. Plaintiff made no motion for leave to discontinue this part of its action. The issues as to the patent were embodied in the pre-trial order and remained in the case throughout the trial, although plaintiff made no attempt at the trial to prove infringement.

On August 15, 1963 plaintiff sent a memorandum to its sales representatives advising them of the pendency of this action for theft of trade secrets and for patent infringement. This memorandum stated:

> "It is not our intent for you to use this information as a sales aid, but *if questioned* by any of your customers about the litigation, please state briefly the facts as presented on the enclosed."

These instructions were never countermanded. Throughout this litigation, including occasions subsequent to April 1964, salesmen or sales representatives of plaintiff advised prospective customers of the fact that plaintiff was suing defendants for patent infringement. There is no convincing evidence that these representatives expressly threatened potential customers with patent litigation in the event that they purchased Marcan cells. It is clear, however, that some customers appreciated this possibility without being expressly so advised. There is reason to believe that the pendency of this action has had some deterrent effect on defendants' sales, precisely how much does not appear.

A person who obtains a patent on the strength of an intentional misrepresentation in the application amounting

to a fraud upon the Patent Office is guilty of unclean hands. He may not enforce the patent.

Walker Process Equipment, Inc. v. *Food Machinery & Chemical Corp.*, 382 U. S. 172 (1965)
Precision Instrument Manufacturing Co. v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806 (1945)
Keystone Driller Co. v. *General Excavator Co.*, 290 U. S. 240 (1933)

That is not the situation here. I find that there was no deliberate fraud, no intentional misrepresentation, in obtaining the patent. Furthermore, I find that when the patent issued in November 1960, and when this action was begun in January 1962, plaintiff was still unaware of any misstatement in the application and of any resulting infirmity in the patent. It was not, therefore, fraudulent for plaintiff to sue defendants for patent infringement as well as for theft of trade secrets, as far as this matter of prior sales of the cell is concerned. Granted that the patent action may have been of dubious merit because of the weakness of plaintiff's case on the issue of infringement, plaintiff was entitled to accept its attorneys' advice to seek a determination of that issue. I find that plaintiff did not act in bad faith in so doing.

As to plaintiff's conduct after April 1964, when plaintiff finally discovered evidence of the invalidity of the patent, my conclusions are as follows:

Plaintiff did not attempt to conceal this evidence of invalidity from defendants. On the contrary, plaintiff's attorney expressly revealed it. It doubtless would have been more candid if plaintiff had advised the court at the outset of the trial that it conceded the patent's invalidity. Instead, plaintiff avoided the patent issue at the trial. It refrained from introducing the patent into evidence (it was

finally put in evidence by defendants), and it offered no evidence of infringement. The aura of mystery thus created added somewhat to the court's burdens, but I do not feel that it can fairly be said that plaintiff misrepresented the facts to the court.

As far as plaintiff's dealings with potential customers are concerned, plaintiff continued to permit its salesmen to advise these customers of the pendency of the patent litigation. Literally, of course, these statements were true in that the litigation was in fact still pending. Nevertheless, in substance, such statements made after the date when plaintiff had good reason to believe that its patent was invalid gave a misleading impression.

Defendants are at liberty, if they see fit, to begin an action against plaintiff for whatever damage defendants may be able to prove with respect to these representations to customers. No such claim is now before me and I express no opinion concerning its merits.

On this motion, the question is whether, because of these activities and because of plaintiff's reluctance to concede the invalidity of its patent, plaintiff should be denied all relief on its trade secrets claim. After careful consideration, I have concluded that this question must be answered in the negative. The trade secrets claim, although related to the patent claim, at least for jurisdictional purposes, is, after all, a separate matter. After a full trial and much testimony on that claim, I have found certain defendants guilty of breach of trust and of intentional wrongdoing as far as trade secrets are concerned. In my opinion they should not be permitted to get off scot-free merely because plaintiff's conduct in some respects may leave something to be desired. Plaintiff's behavior was not bad enough to justify the strict application here of the "unclean hands" doctrine. The motion is therefore denied.

Defendants are given ten days from the date of this order within which to submit a proposed judgment counter to that already submitted by plaintiff.

So ordered.

Dated: May 31, 1967

Edward C. McLean
U. S. D. J.